Deutsche Bank

Fox Corporation

Tuesday, March 9th, 2021

Q&A

Bryan Kraft (Deutsche Bank): Okay. We're live. Welcome everyone. Thanks for joining us this afternoon. I'm Brian Craft. I cover the media sector for Deutsche Bank, and I'm pleased to welcome Steve Tomsic, who's the Chief Financial Officer of Fox Corporation. Steve, welcome.

Steve Tomsic (Fox Corporation): Hey, Brian. Thanks for having us.

Bryan Kraft: Yeah. Thanks for joining us. And why don't we start off with some strategic questions. You know, I think if you look back to 2017, Fox obviously made a decision to head in a different direction than the other major television and film entertainment companies. How's that decision led to Fox's unique strategic position today and do you still believe it's the right strategy and, if so, why?

Steve Tomsic: Yeah. That's a good opening question, Bryan. I think we'll touch on a lot of the topics I'll make answering this question over the course of the rest of this call, but so now, I think if we're ten days away from the anniversary of the 21stst Century Fox/Disney deal closing, and if you look at what was created out of that transaction, it gave Disney the opportunity to get to superscale in terms of entertainment assets, both domestically and internationally, and then it gave Fox the opportunity to create a new company with a potent set of really concentrated assets focused on live sports and news, with Fox News and the broadcast network and cable sports nets. And not only were they a potent set of programming assets, but they came with an incredibly engaged audience, both at a national level and a local level. And so, when we fast-forward two years, having had that constellation of assets with us, everything that we thought we would achieve has been achieved over that first two years, and so you've seen us get through a really, really heavy round of affiliate renewals, which were all constructive in terms of negotiations and gave rise to us really driving I'd say industry-leading affiliate revenue growth.

The advertising experience that we've had so far as a company has been staggering. It sort of started with the Super Bowl earlier last calendar year before sort of where we got to with COVID now, but then we've had an epic amount of political revenue, which just goes to sort of the relevance of our platforms, both at sort of a national and local level. And so, when you look at that, we feel as though the strategy's proven itself out by – with those proof points in terms of the momentum that we have in the business. We're also conscious of the fact that strategy evolves and the business that worked really well two years ago will need to continue to evolve to be competitive in sort of the next generation of media. And so, you've seen us expand from those core assets by buying assets like Tubi, by being really forward in our sports betting investments with things like Credible, to really continue to sort of build the breadth of the company. And so, when we sit and look at where we are today, you sort of had a business that is now significantly more strategically broader, which is really important for us, but then we have this amazing financial platform from which to sort of do even more and grow even further.

So, our revenue growth is excellent, our EBITDA margins are also excellent, we have great conversion to free cash flow from that EBITDA, and then our balance sheet is in superb condition. Like, we have strong liquidity, a lot of cash on the balance sheet, very low levels of debt. And so, as we look forward in terms of what are the opportunities going forward, we feel as though we couldn't be in a better position to seize upon what is going to emerge over the next year – over the coming years.

Bryan Kraft: And you mentioned some of the investments and acquisitions that you've made. You know, from a capital allocation perspective, Fox has followed a very different path than competitors. You know, rather than large-scale acquisitions and investing billions into content for streaming, you've done smaller deals and equity investments in areas such as ad-supported streaming with Tubi and, you know, you mentioned sports betting with Stars, animation with Bento Box, and the digital deal you did with Credible. How have these investments turned out so far? What have the results been? If you could talk about that a little bit, that would be great.

Steve Tomsic: Yeah, no. Listen, it's a great question, because it sort of goes to sort of a lot of the communications that we've tried to make as a company over the last probably nine to twelve months. And so, if you look at each one of those investments there, they distinguish themselves in different ways.

And so, Tubi, which was probably the most recent of all of those investments, is really about the broadening of the future of network television, and so that's an important part of what we do with the business as sort of the linear broadcast network changes over time, and so it's an important piece for us to be able to continue to develop that asset in combination with the broadcast network. Sports betting, we were one of the first media companies to get into that space, and that was more about leveraging our assets thematically into an industry that is going to be, by all estimates, is going to be a very large industry over the next sort of three, five, ten years, and so it was important there. I'd say Bento Box is a little bit different, because we really there were buying more of a capability as opposed to a standalone business that was going to generate real income for us, but it's a really important animation capability for us. And then the fourth of those that you mentioned is Credible, which is really about proving the thesis that we have this very loyal and engaged audience and we can cross-promote adjacent products to that audience that resonate with them. And so Credible falls into that category.

Now, from a performance perspective, if you look at in round numbers how much money we've put into each one of those investments, so in round numbers we've put $500 million into Tubi, FOX Bet, in terms of our investment in Topco and Flutter, is another $400 million. And Credible, we bought for just under $300 million. So, collectively across those three, Bento was a much smaller acquisition, so I won't sort of talk to that right now. But if you look at that collectively, we've put about a $1.2 billion (06:50) of capital to use against those assets and, somewhat frustratingly for us, I don't think we're even seeing that the cost base of that $1.2 billion of capital in our share price, let alone what you would mark it to market for now. So, if you look at the $1.2 billion and what the return on that has been, just the investment in Flutter and Topco was worth $700 million. If you then looked at the combination of sort of the two big digital assets that we bought, being Tubi and Credible, the two of those this fiscal year will collectively do more than $400 million of revenue, and if you apply any kind of progressive digital multiple against that revenue stream, they would be multi-billion-dollar assets. Then you've got the value of our options in both FanDuel and FOX Bet.

So, when you look at sort of the hidden value in the business, and I won't even talk about the tax asset, which was worth more than $3 billion dollars, you've got an enormous amount of hidden value that's captured in those businesses that we don't think we're getting adequate share price sort of credit for, and so all of those, I'm sure you're going to want to talk about most of those assets, so I won't talk about them operationally just yet, but from a sort of return on capital perspective, they've performed incredibly well for us.

Bryan Kraft: Okay. And how should we think about the use of capital going forward, given the $4.5 billion in cash on the balance sheet and your low net leverage? Will you maintain this conservative approach to the capital structure for the foreseeable future? Is this out of a desire to be opportunistic or are there specific acquisition targets you have in mind?

Steve Tomsic: So, I think you've got to look a little bit at the sort of the pathway we've been on since this time last year. So, at the – when the onset of COVID really struck, we took a much more conservative view in terms of managing the balance sheet. So, a little under 12 months ago, we tapped the markets for some additional liquidity, so we took another $1.2 billion onto the balance sheet for sort of in case of emergency, which thank goodness we haven't really needed.

So, as we sit here today, that $4.5 billion of cash is probably excessive versus where we would typically want to be. We have a debt maturity in the early part of next calendar year that we're effectively pre-financed already with that cash on the balance sheet, but also going to the point sort of I raised in terms of frustration with sort of the hidden value on – of the asset portfolio that we have, once we sort of emerged from COVID and it looked like the worst of it was behind us, we looked at sort of where our relative sort of valuation was versus our peers, looked at the opportunity set in terms of investing in the business organically, or inorganically, and determined that a really good use of capital for that in the immediate term was to really lean into buying back stock. And so, by the time we get to the end of this fiscal year, we will have bought back a $1 billion dollars of stock this fiscal year, which will mean that by the end of this fiscal year we will have already used up $1.6 billion[?]of the $2 billion board authorization that we have. And remember that we'll be able to reignite that authorization a lot more seamlessly going forward in the future, because we already have sort of the basic principles set out for the way that buyback works and buying back the voters and the non-voters, and so it becomes easy to re-up over time.

And so, when you add the buybacks that we've done, as well as the dividends which we've continued to pay right through COVID, we've done probably – by the time we get to the end of this fiscal year, we will have sent back about a $1.3 billion in capital to shareholders, which is north of 60% of last year's free cash flow, which has been an important use of capital.

Now, that's not meant to signal that that's the way the world will work for us going forward, because we will stay opportunistic about organic and inorganic opportunities to grow the business, and organically it feels like the best place for us to point capital is in our digital assets, whether it be Tubi, Credible or investing in the digital sort of side of all of the Fox News businesses that we've already announced. But I think our bias will shift from being ultra-conservative, which has been most of the last 12 months, given the pandemic and what the potential that that could do to harm our business. We think we're through that, and so I think going forward we'll probably be a bit more aggressive with the use of capital. We'll actually grow the business.

Bryan Kraft: Okay. And on the topic of streaming strategy, which you mentioned there, can you talk about the different elements of your strategy outside of the Pay TV bundle, with Tubi and Fox Nation, and help us understand how the strategy evolves from here as the Pay TV universe continues to contract?

Steve Tomsic: Yeah, so I'd almost like – you'd almost take the second part of that question first in terms of the development of the Pay TV bundle and our relative positioning within that bundle. So, what we've seen is from – so we're going back 12 months ago, where you had almost like 7% subscriber erosion in sort of traditional and digital MVPDs collectively. That's now, in terms of an erosion rate, has ameliorated to closer to 5% now, so there's been some positive shoots there. But listen, when we think about streaming and more broadly direct to consumer, you look at the asset base – and this was quite – it goes back to your first question about the asset base that Fox was endowed with at inception. And so, the reality is that our business is focused on live sports and news, whereas many of our peers have gone down the track of an aggressive streaming strategy because the digital provision of that content is a much better consumer experience for that content than it is for the content that we – that we broadcast. Because there's nothing that the streaming world adds to the provision of live sports and news. And so many of our peers have kind of had to go aggressively to that streaming space because that is where their content is best consumed.

So, as that continues to happen and more and more of our peers go out with a – with these aggressive kind of SVOD platforms, it means that the relative importance of our suite of content within the bundle increases. And so, we would expect that within the existing both traditional and digital MVPD universe, that our relative pricing power continue to grow given that we're so core to that bundle. And so, we expect to have industry-leading distribution revenue growth in its sort of most broadest form for a long time to come, without all the cost that goes with building these huge SVOD platforms.

As we think more about D2C, we're going to go down a different path than sort of these SVOD platforms, so from a D2C perspective, we already have a pretty flourishing business with Fox News Digital. In fact, we now no longer call Fox News the Fox News Channel internally. It's the Fox News Media business. Because it has so many different legs to its revenue streams, whether it be the website or whether it's an audio business, whether it's a books business, whether it's the Nation business. And so, we think that there's a lot of runway to grow sort of our Fox News non-linear revenues for a long, long time to come. We've already made a large investment in Tubi, which drives – which is a direct-to-consumer platform which drives digital advertising revenues for us. And that is growing significantly for us from an advertising perspective.

And so, I think when we look at our sort of distribution revenues more holistically, we think we're in a great position to drive that revenue growth, whether it be out of the traditional bundle or sort of these new digital revenue streams. And then, as the traditional bundle continues to sort of decline, I think we feel as though we're holding a really strong hand with assets like Fox News and Fox Sports and the resonance that we have with those assets to be able to deliver those on a direct basis, either outright on their own or in combination, because I'm sure that over time you're going to see digital bundles develop where we think that content will be king, as always, and that people will want to find a home. We want to be able to offer our assets in combination with theirs. And so, even with some of our, like, just anecdotally, we've seen that our digital MVPDs who initially had a reticence about taking Fox News because they thought that their audience would be sort of younger, more progressives, and so why do they need Fox News, have quickly found that once Fox News was added to their platform, like every other platform in the country, it goes straight to number one in terms of ratings. And so, we think that irrespective of the way distribution plays out over time, we think that the collection of our assets will find a really great distribution home that we can monetize in a way that very few others can.

Bryan Kraft: You mentioned Tubi there obviously and Lachlan mentioned on your last earnings call that Tubi would be part of the company's re-imagining of the broadcast business. I just wonder if you could elaborate on that comment – you know, help us understand what that means a bit more.

Steve Tomsic: Yeah. So, in some respects, there's already developed quite a symbiotic relationship between Tubi and our broadcast network, particularly the entertainment side of the network. But as we think about sort of the broadcast network, we had to reimagine anyway, right? Because after the Disney transaction, the notion of particularly the entertainment side of the network being a shop front for the television studio and the economics would disproportionately accrue to that television studio, we've had to rethink that and have the broadcast network really stand on its own, and if it was going to be the shop front for other programming assets, then we needed to have a piece of equity in those programming assets, and so you've seen us do that over time, but that's not a – that's not an overnight flick of the switch to get to that position. But when we think about Tubi, increasingly, there's going to be a – there's going to be an audience that doesn't get access to the broadcast entertainment network, cause they're cord cutters or cord-nevers.

And so, you've already – with our sort of user base in Tubi right now, 50% of that user base doesn't have a traditional or a digital MVPD subscription. And so, it's a free ad-supported kind of entertainment network, but it just happens to be delivered digitally as opposed to linearly. If you then look at the sort of the touchpoints between the entertainment network and Tubi, they grow stronger day by day. So, you see the power of the cross-promotion platform of both sports news and entertainment continuing to promote in a really integrated way the Tubi platform so that we drive audience and traffic and user to Tubi. So, that's the first way. You're increasingly seeing our content assets being distributed more and more on Tubi to give that an extra special edge and give it more breadth in terms of content. So you've seen things like The Masked Singer appear on Tubi, and you've seen us develop a new service both locally and somewhat nationally for Tubi to be able to have news on top of – live news on top of its library product on the platform.

And finally, and sort of most impactfully from a financial perspective and most immediate from a financial perspective for us, has been the tapping in of Tubi into our sort of traditional ad sales force, where it has immediately gotten sort of recognition amongst the agencies and advertisers that this is a legitimate advertising platform on top of broadcast entertainment and sports. And so, when we think about Tubi and sort of the aspirations we had for it – and Lachlan said out on the earnings call A) that we want to win in AVOD, B) like this year, we're on track. Listen, I think conservatively, we'll do $300 million of ad revenue on Tubi this fiscal year. And then over time, this is a billion dollar and growing revenue platform for us in the next few years, and you'll see the curves cross, where the advertising revenue that we earn on Tubi will exceed the advertising revenue that we generate on the broadcast and entertainment network.

And so, we feel the whole – Tubi sort of reports into Charlie Collier, who runs the entertainment network, and we see – we manage those two assets collectively for the betterment of the whole business. And so, and we're really excited about the opportunity that we have with Tubi and so we had – obviously, we had strong expectations for it when we acquired it a little under 12 months ago, but it has exceeded all of those expectations.

Bryan Kraft: And when you say that Tubi's advertising revenue will exceed the Fox entertainment network, does that mean the entire network including sports or did you use the word entertainment specifically to exclude sports? Just to clarify that.

Steve Tomsic: No, specifically – no, just to clarify that, it's specifically to the entertainment side of the business, so the non-sports side of the business. Obviously, with some of the major sports assets that we have on the network, it's a big mountain to climb for Tubi to knock those off.

Bryan Kraft: That's – that's why it a big clarification. It would have been a big number.

Steve Tomsic: Exactly.

Bryan Kraft: It's still a big number though.

Steve Tomsic: Yes.

Bryan Kraft: It's impressive. What – do you think at some point though you may put major sports on Tubi in order to get that extra audience reach, or you know, other live content from the broadcast network and stations?

Steve Tomsic: Listen, I wouldn't bank on major sports being a – what would I say? – sort of like a part of the kind of daily diet of Tubi, because I think the monetization of major sports will continue… And I mean the major, the top-tier sports, which is typically what we sort of trade in as a company. I think to monetize those, you still are going to need dual revenue streams. So, from our perspective, it's an affiliate revenue stream as well as an advertising revenue stream, whereas Tubi – the beauty of Tubi is its simplicity of message, which is it's a free service and truly ad-supported, and so… But I can see a world where you would experiment with sports to drive sampling of Tubi and drive the brand of Tubi, and maybe some of the second- and third-tier sports could find a home if the economics worked with Tubi to drive that. But I think it's a reasonable distance away before you'd see sort of the core home of any of our major sports on Tubi.

Bryan Kraft: Got it, okay. And how are you thinking about non-live content ownership going forward? You know, you – Fox sold studios obviously, but you've shown some appetite to own and produce your own content. You know, how should we think about – and I know it's – you know, you're predominantly sports and news, but on the, you know, the actual entertainment piece, the non-live piece, how should we think about your appetite to own content there?

Steve Tomsic: Yeah. So, I think we announced it at our Investor Day, where essentially what we're trying to do with the entertainment side of the network is that we have an incredible scarcity of space in the schedule, which – and that scarcity of space is surrounded by sort of sequoia kind of tree kind of programming, like whether it be NFL or MLB post-season. To be able to nestle yourselves inside of that cross-promotion platform is incredibly valuable to get a show to sort of critical mass in terms of audience and recognition and potentially longevity to really make money. And so, for us to be able to release one of those slots to a new form of programming, if we really believe in the programming, then we're going to want an equity stake in that programming. And so, you've seen us do a lot more co-production deals.

I don't think you should expect to see us doing sort of buying a big studio to be able to monetize that in the entertainment network. I think we're going to be much more choosey about how we do it and much more sort of deliberate about it. The one place where we have gone to be a little bit more strategic about it has been with Bento Box, because we clearly have a Sunday evening animation franchise that has been really, really strong for us and really, really powerful for us.

And so, we invested in, or we bought all of Bento Box, to buy into that animation capability, and Bento Box not only produces for us but produces for other platforms, including streamers like Netflix and Apple. But it's important for us to have that capability because we think we've got a real niche in animation, where we can continue to build that franchise. And you've seen it most recently with The Great North, which is a Bento Box production. We own 50% of it with TCFTV, and we launched it as part of this year's slate and it's grown to be the number-one comedy series in all of network TV. And so, being able to use that promotional platform, being able to use – so to be selective about where we're going to invest in production is really important for us.

You've also seen us do it intern – we call it internally Fox Alternative Entertainment, where we're trying to really build an expertise in sort of live or – or semi-live programming. And so, you've seen us sort of really lean into franchises like – things like The Masked Singer and its offshoots. So, that's where I think you should see us investing. Don't expect us to invest in really meaningful ways in sort of non – in terms of scripted entertainment dramas that come with huge price tags and are really difficult to make work out of the economics of broadcast.

So, we'll be really selective with it, but we think we can be smart and really leverage the kind of the core assets that we have to make those investments work.

Bryan Kraft: Okay. Makes sense. Why don't we talk about some of the business drivers a bit, starting with advertising? What are you seeing in the ad market now, both the national scatter and at the stations and can you give us any color on the trends that you're seeing at the category level?

Steve Tomsic: Yeah. So, we're a month or two out from sort of where the – where sort of negotiations for the up-fronts. And so, the advertising platform and health of the market that we have going into those upfront is incredibly robust at the moment. And if I sort of rewind back to 12 months ago, incredibly more robust than where we were, and we're having a great advertising year this year anyway. And so, if you look at where we are in terms of scatter, scatter pricing versus upfront in some of our key verticals, we're writing entertainment scatter at times at up to 50% premium to upfront, which is huge. And part of that goes to the fact that there's a scarcity of inventory and in the last upfronts we quite deliberately held back inventory sold at the upfront, so that we could take advantage of what we thought would be a pretty constructive scatter market.

In news, we're seeing scatter pricing at around the 20% premium to upfront, and news has been really encouraging, both from the fact that we're seeing both premium pricing from a linear perspective but we're getting a really strong programmatic bid on our digital assets, and so that's a really encouraging sign for us.

Sports, we've already gone through the heaviest component of our sports calendar with respect to both NFL and college football, so when we look at our sort of fiscal second half, so January through June, sort of the sports assets that we have are relatively light versus the first half, but even sort of picking out the two biggest ones that we have in that half, NASCAR, our cash pacing is well ahead of where we thought it would be from a budget perspective and where it was last year from an actuals perspective. And we're seeing MLB interest way before that we would have seen sort of in previous years. And so, the health of the national market is really strong as we go into upfronts, which should bode well for those negotiations in – in a month or two's time.

And then, from a local perspective, remembering it was probably 11 months ago now that we were seeing local pacing down 50%, and that's when we went and got some extra capital to put on the balance sheet. If we compare where we're pacing now, and remember our Q3, so calendar Q1, we're comping against not only having Super Bowl last year, which is a pretty important driver of local advertising revenue, but we were also seeing some pretty meaningful local advertising spend from political, remembering that that was the time I think when Bloomberg was starting to make his run in the Primaries, so if I – it's never apples for apples, because some of this revenue actually cannibalizes the base market, but if I extract those two pieces out, we're now trading on pace with where we were last year before COVID. And so, that's a really encouraging sign for us.

We're seeing strength in a lot of categories. Foreign auto has been good, although domestic hasn't been as strong as we want it to be, and I think that's less of a demand issue. It appears as though that's being driven by the fact that manufacturers are having supply chain issues, particularly with chipsets and so therefore they're reticent about advertising and not being able to satisfy the demand. We're also seeing it in financials, in insurance, and we're also seeing strength in the entertainment category. And then sort of as sort of a niche, which is a growing niche within that entertainment category, we're seeing some significant spending out of sports wagering as a category in some of markets where online sports betting has been legalized. So, listen, we're really, really encouraging signs from an advertising perspective, and it does feel like sort of COVID as being an issue is well and truly behind us, so we look forward to sort of Q4, which is generally a quiet year for us from an advertising perspective, and more importantly we look forward to a really, really constructive upfront, which gives us a really nice tailwind going into fiscal '22.

Bryan Kraft: Okay. That's great color, thank you. Let's talk about the affiliate side for a minute. You had, you know, talked a bit about pay TV subscriber declines and your relative positioning in the bundle. Obviously, you can't control the rate of pay TV sub declines. Pricing is something you have more control over. Can you talk about the outlook for affiliate revenue growth in television and in cable networks, as well as timing for the next significant

MVPD contract renewals? You know, any kind of, you know, sort of rough sense you can give us as to the renewal schedule would be really helpful.

Steve Tomsic: Yeah, sure. So, I – if you look at sort of where we've been from a subscriber perspective, which is obviously sort of half the equation in terms of volume times rate, as I said, that subscriber position continues to improve for us, so minus 7 now, minus 5. When we look at sort of changes in rates, we've just gone through a really, really heavy renewal cycle, so particularly the first 18 months post the spin of the company. And so, we got all of those deals done. I think we were out on one platform for maybe a week, but the rest of – and on sort of the converse of that was we pre-negotiated a renewal, like months and months in advance, which is unusual from an affiliate perspective. And so, you've seen the product of that rate growth really drive our affiliate revenue all the way from when we spun all the way to today, and that rate increase will continue.

You'll see those in our numbers over the course of the next year or two. We called it out at our Investor Day that the bias towards that sort of total affiliate revenue growth would be on the TV side. And at the time, we were sort of run-rating at a $650 billion of TV re-trans and reverse comp. We said we'd grow that by a billion, so call it $2.65 billion of TV affiliate revenue by calendar year '22. We're absolutely on track to make that and that's only been aided and abetted by the fact that the subscribers have been more constructive for us. But then I would also say that as we look forward, we'll have the benefit of exactly where we stand on one of the key sports rights, being NFL, in the coming days, weeks and months – hopefully, days, weeks. But we don't really have any sort of meaningful affiliate revenue renegotiations until sort of the back half of calendar '22.

And so, we'll know exactly where our content position is. We'll know exactly where our rights costs are and we'll be able to really sort of re-set our rates going into the next phase, particularly the meet up with when the affiliate – when the NFL renewal kicks in. And so, we would – I think when we look at it over the course of the next – this year we had 5% of our total advertise – total affiliate revenue up for renewal. Next fiscal year, we'll have another 5%, and the fiscal year after that is, I think about 35%. So, that's when we can really drive that next, really step, change in rate growth. But as we look at it today, we feel like that we've got a pretty healthy distribution revenue landscape that we're trading into.

Bryan Kraft: Okay, great. You've talked a little bit about Tubi earlier and I think you said conservatively you'll do $300 million in ad revenue this year. Can you give us a little bit more detail on the growth profile of the business since you acquired it last year? And maybe talk about the underlying drivers of increased engagement and MAUs, you know, so primarily the content that you're adding, is it, you know, general secular trends, marketing, you know? Any other factors?

Steve Tomsic: Yeah. Listen, Bryan, it's a combination of all of them. So, Tubi – we bought Tubi because it was a fast-growing business. And so, when we brought it on the platform, it came with a lot of its own momentum to start with. And it's always hard to pick apart how much of it was their organic momentum versus how much we've added to it, whether it be with our cross-promotion or whether it be with sort of cross-pollinating our content into Tubi. But we think that all of those forces together have really driven the growth in the platform. We don't spend a lot of time looking at it from a sort of a users' perspective. We don't think that's the greatest metric for measuring sort of what actually drives revenue in that platform.

And so, we look at it really on the basis of total viewing time, which over sort of our second quarter of this fiscal year was at around 750 million hours, which is 70% higher than when it was our previous corresponding period. And so, it already has a really, really significant amount of momentum going into it, and we would expect to continue to drive that by continuing to cross-promote it and continuing to drive content into it. And then from a monetization perspective, not only have you seen us build volume in terms of viewership, but we've also been able to drive fill rate in terms of being able to drive advertising revenue. And so, once we get fill rate to the next level, you'll start to see us drive CPM. And then it becomes a bit of a bit of a flywheel effect because the more viewership you get, the more ad revenue you collect, the more you can put into content and so the story goes. And so, we feel as though that's going to be a pretty powerful growth platform for us for a pretty long time to come.

Bryan Kraft: Okay. And what's the programming strategy for Tubi this year?

Steve Tomsic: Yeah, so, listen, you're going to see us… First and foremost, it's going to continue to be all about the sort of the breadth of content. So, for Tubi it really is about you come to Tubi and you literally get thousands and thousands of different titles to choose from. And so, in order to make the economics of that work, a lot of those titles come through on sort of these revenue-share kind of deals. As we get smarter about what viewers are really consuming and being able to serve them with the content that we think really matters, you'll see us kind of shift kind of the style of the commercial deals behind that sort of content acquisition shift from revenue share to more of a bias towards licensing, so that we can generate sort of more marginal income from those. You'll see us continue to try and lean into developing content that works both on a broadcast network as well as being able to be used on the Tubi platform and sort of getting that synergy between those two businesses going forward.

And then I think, listen, over time, in order to – as we look at genres that really work on Tubi, we will cost-effectively look at sort of originals, but I stress that it's going to be cost-effective, because when we look at consumption patterns on Tubi, yes we'll have stump titles that we acquire on a licensed basis, to really drive sort of recognition of the platform, but when we look at the consumption, it's not the stump titles that actually do the business. It's often these really cost-effective titles that a lot of the viewership resides in. And so, we will lean in to doing those cost-effective titles more on a regional basis to super serve that kind of consumption. But you shouldn't expect that to be anywhere near the kind of dollars per episode that you see on some of these really shiny SVOD platforms. These are really the sort of the cheap and cheerful titles that [audio cuts 39:47] with Tubi, because that's what they're going to the platform for.

Bryan Kraft: Okay. And moving to Fox Nation for a minute, you launched the Fox Nation direct to consumer streaming service a little more than two years ago. Can you give us any color on how large the business has become in terms of subs and/or revenue? Any color on the growth trends there and where you're taking that part of the Fox media business next – Fox News Media business next?

Steve Tomsic: Yeah. So, listen, without giving away too many details about how sort of the details of revenues and sub numbers and things like that, one – the – we started Fox Nation, as you said, two years ago, or a little under two years ago, and our initial aspirations for it were that it would be sort of like an additional outlet to super-serve the Fox News dedicated fans, and I think we've gotten to base camp there in terms of being able to satisfy that super-fan. But as we've learned more about the platform and what those fans – sort of what those Fox News fans want, we think there's a much bigger opportunity there to sort of really serve heartland America, which is where Fox News speaks to, right, to really serve them more than just an offshoot of the Fox News channel on an SVOD basis, but really serve them some different programming that speaks to what their interests are, whether that be sort of history or lifestyle programming, or to give them sort of more high-profile news programs.

So, you would have seen that we recently renewed Tucker Carlson, and as part of that deal he'll not only do his traditional linear prime-time slot, but he'll be producing programming specific for the Fox Nation platform. And just with the announcement of that, we've seen take-up levels and consumption levels at Fox Nation go up, even without his content being on it. And so, you'll see us broaden that out, but I think we'll do on a really measured basis, as opposed to a sort of a big bang. But we think that we really now have a platform where we can start to really invest sort of a little bit wider afield than sort of just straight-out news programming on Nation and be a little bit more broader on that, to really drive a meaningful number of subscribers and revenue.

Bryan Kraft: Okay. On the betting side, how should we think about the opportunity for revenue and EBITDA growth in the coming years from FOX Bet? Can you give us a sense of the size of that business today and how it's positioned competitively?

Steve Tomsic: Yeah. So, listen, I think –I'd be careful, because we're still, we have an option – we have an option over 50% of FOX Bet. We don't actually operate the business right now. And so, it's probably more appropriate for Flutter, who's our partner in that business, to give sort of the real revenue and profitability dynamics for that business. But listen, I know that DraftKings are doing an Investor Day today and they talked to terms of $20 billion on sports wagering, and that again on sort of iGaming. And so, we were really early in identifying this as going to be thematically a big business in the United States.

The heritage of the company comes from having sort of international experience and you've seen sort of Sky Bet do it in the United Kingdom, and you've seen the proliferation of betting assets there, and the same thing you've seen in Australia, and we see that the United States will be no different to that once enough states legalize online sports betting. And so, we think, listen, FOX Bet is relatively new to the market, didn't have the established position of the big two, being FanDuel and DraftKings, but with the tailwind of Fox, big Fox being able to really cross-promote those assets, we think that it can get an unfair advantage in building the FOX Bet brand and usership.

And so, you're seen that sort of the most immediate impact of the FOX Bet sort of promotional – sorry, the Fox promotional platform on our betting assets has been FOX Bet's Super 6, where you've seen the whole company gather around Super 6 as a free-to-play game and promoting it to each one of our – the audience of each one of our verticals. Most notably in sports, but you've also seen Fox News rally around it and our entertainment business rally around it and our local stations rally around it. And so, you've seen that userbase grow from sort of just north of a million users to sort of right now being closer to 4.5 million users. And so, we've only really been going at it for one year, and so we see enormous capacity for our platform to cross-promote into the betting space, to give those betting assets an unfair advantage.

If I look at the reverberation effect of those betting assets on our base business, it's really been impactful for us, because it can have a really strong impact on being able to drive viewership engagement, because if you've got a – if you've made free-to-play kind of pick and potentially could make a million dollars on your picks, you're going to be watching the NFL game for longer. And if you've got a real money wager on it, then absolutely you will. But not only that, we've also seen, as I mentioned earlier when we were talking about the growth rate in terms of local television advertising, that sports betting kind of advertising revenue, not just with FOX Bet and FanDuel spending on our platforms but also the broader sports betting universe, has been a really meaningful driver of advertising revenue in the first half of our fiscal year. So, listen, I think we were very quick to catch on that this would be a big category, and I think that we've got, among all the media companies that have made various forays into this, we think we've got the most forward position and probably the most attractive collection of assets in this space, which is by all estimates, is going to be a very big business for many, many years to come.

Bryan Kraft: Okay. Let's move over to the cost side for a minute. Sports rights are obviously a large part of your cost structure and they tend to escalate each year in the mid-single-digit range, plus larger step-ups on renewals. Given that dynamic, how are you planning to manage these costs to a slower rate of growth in order to avoid downward pressure on EBITDA and free cash flow from costs growing faster than revenue, you know? Or alternatively, do you see an opportunity on the revenue side to mitigate the headwinds from sub declines and on parts of your ad business, like local and scripted entertainment?

Steve Tomsic: Yeah. It's an excellent question, Bryan. We obviously have a laser focus on this issue. I think when you look at sports rights inflation, where you tend to see it most clearly is in the really top-tier sports. And so, we've done our MLB renewal and that goes out to 2028 and so that's a done deal where we can see how that cost progression will work for us over the next sort of seven or eight years. NFL is a live negotiation at the moment and that – and we'll see where that ends up, but let's assume that there's some reasonable inflation there. Both of those properties and our other sort of what I'd call category A kind of sports assets live on our television network, which also happens to be the place where we're driving the most affiliate revenue growth. And so, if you look at how we're trending at the moment with TV re-trans growth, I think last quarter we were plus 23%. And so, I'm not saying that that carries on forever, but we think that we've got a lot of capacity to drive re-trans growth for a long time to come, to offset sort of the cost growth in the underlying sort of sports rights portfolio.

And when I look at cost growth across sort of the remainder of the portfolio, I think from a local TV perspective it's always been relatively modest. We keep tight control of local television costs, and so you should expect that to continue. I look at the entertainment business and I think going forward it probably splits into two pieces. One is how much are we going to continue to invest in Tubi, and I'll get back to that in a sec. Then if I look at sort of linear entertainment costs, we've already done a reasonable amount of co-productions, which increases the expense base in the short term, in the hope of sort of revenue returns in the longer term. I don't think you should expect step changes in the way that business is run.

But when I – our news – sort of core news, again, we run pretty tightly, and so you'd expect to see relatively modest levels of cost growth in that business as well. Where you should expect us to really lean into investing in the business, and you'll see that come through in our cost line, is Tubi, where for the first half of the fiscal year we're in now, the business has been a push from an EBITDA perspective. It's sort of costs – revenues and costs have been largely equal. That's not the intention of the business, and we intend to absolutely invest in the growth of that business, so you should expect us to take on deficits, both in the back half of this fiscal year, as well as into future years. And then you're going to see us lean into sort of this Fox News Media beyond linear business.

And so, you'll see us lean into Nation, you're going to see us lean into things like the weather initiative that we're going to launch later this year, you're going to see us lean into sort of the growth that we're already seeing on the website to develop that. And so, that's where you're going to see sort of more organic cost growth. You'll also see cost growth from an absolute perspective in businesses like Credible, but again, from a net-net perspective a largely a push on the P&L. So, that's really the way you should see the shape of our cost lines for the foreseeable future.

Bryan Kraft: Okay, great. Well, we are actually out of time, Steve, so we'll stop there and –

Steve Tomsic: Wow, quick.

Bryan Kraft: I want to thank you for joining us. It goes by quickly. But thanks so much for joining us. I thought it was a great discussion. I enjoyed it. And yeah, thank you for coming.

Steve Tomsic: Bryan, thanks for having us. It's been our pleasure to be here and we look forward to doing it in Palm Beach next year.

Bryan Kraft: So do we. Take care.

Steve Tomsic: Thanks, Bryan.

Bryan Kraft: Have a good rest of the day. All right. Bye, Steve.

Steve Tomsic: You too.

[END OF TRANSCRIPT]